

The definitions set forth in the CFTC Swaps Report Explanatory Notes are provided for the purpose of enhancing the user’s understanding of the data presented in the Reports tables. Where applicable, these definitions reflect aspects of the swaps visible in the voluntarily-submitted data used to populate the initial (proposed) edition of the CFTC Swaps Report.¹ Definitions do not state or suggest the views of the Commission concerning the legal significance or meaning of any word or term and no definition is intended to state or suggest the Commission’s views concerning any trading strategy or economic theory; however, to the greatest extent possible, the definitions of the terms presented in these Explanatory Notes have been harmonized with the Commission’s existing or forthcoming final rules. The Commission requests comment on these Explanatory Notes; comments may be submitted to swapsreport@cftc.gov.

Gross Notional Outstanding

Gross notional outstanding represents the total outstanding notional value (the “face value” of a swap upon which the payment streams for that swap are based) of active swap transactions that are reported to a registered SDR as of 3 a.m. on the Saturday prior to the CFTC Swaps Report’s Wednesday publication date.² By indicating the sum of the face values of all reported swap transactions suitable for publication, the total gross notional amounts outstanding displayed in the Swaps Report present one measure of the total size of the swaps market. Total gross notional amounts outstanding displayed in the Swaps Report are adjusted for double-counting resulting from clearing swaps (both sides of a cleared swap are often reported as two separate swaps—one swap between each counterparty and the clearinghouse—in survey data).³

¹ The entities that are currently submitting data on a voluntary basis for the CFTC Swaps Report are LCH.Clearnet’s SwapClear, which is submitting cleared interest rate information that by LCH.Clearnet’s estimate comprises 95 percent of the global cleared interest rate swap market; DTCC’s Global Trade Repository, which is submitting uncleared interest rate swap information that by DTCC’s estimate comprises between 65 and 80 percent of the global uncleared interest rate swap market; DTCC’s Trade Information Warehouse, which is submitting cleared and uncleared credit default swap information that by DTCC’s estimate comprises approximately 98% of the global cleared and uncleared credit default swap market; and DTCC Derivatives Repository Ltd, which is submitting monthly uncleared equity swap information that comprises some unknown percentage of the global uncleared equity swap market. The Commission has endeavored to thoroughly evaluate the totals derived from voluntarily submitted data and cross-reference them with external survey data, but nonetheless notes that in the proposed version of the CFTC Swaps Report, these totals should be considered to be estimates, and should not be considered to be definitive assessments of the size of the swaps market.

² For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, this timeframe will vary. For cleared interest rate swaps, the weekly cutoff occurs at 12 a.m. EST on Saturday. For credit default swaps and uncleared interest rate swaps, the weekly cutoff occurs at 3 a.m. EST on Saturday.

³ For the proposed version of the CFTC Swaps Report, the All Swaps report tables will, for certain observations, contain estimates derived from external survey data (including the 2012 ISDA Operations Benchmarking Survey and the semiannual OTC derivatives statistics published by the Bank for International Settlements) in those instances in which entities are currently submitting limited or no data. These instances are noted in each table’s footnotes. The Commission has endeavored to thoroughly evaluate and cross-reference the estimates derived from external survey data, but nonetheless notes that these estimates should not be considered to be definitive assessments of the size of the swaps market. For the proposed version of the CFTC Swaps Report, the Swaps by Asset Class report tables will reflect the data submitted by the aforementioned entities on a voluntary basis, unless otherwise noted in a table’s footnotes.

For the purposes of these reports, individual multi-commodity swaps are counted in the asset class identified by the reporting counterparty as the “primary asset class”, as required by Part 45.⁴

Notional amounts outstanding are expressed in millions of U.S. dollars. The notional values of swaps denominated in other currencies are converted to U.S. dollars using the conversion methodology defined in the Commission’s Block Trade rule.⁵

Net Notional Outstanding

A counterparty’s net notional outstanding is the difference between the notional values of the counterparty’s long and short notional amounts outstanding for a specific product within an asset class in a registered SDR as of 3 a.m. on the Saturday prior to the CFTC Swaps Report’s Wednesday publication date. The CFTC Swaps Report contains aggregated net notional amounts outstanding, calculated as the sum of the individual net notional amounts outstanding of all counterparties to active swap transactions that are reported to a registered SDR as of 3 a.m. on the Saturday prior to the CFTC Swaps Report’s Wednesday publication date.⁶

A counterparty’s net notional outstanding effectively represents the maximum possible fund transfer from that entity to its counterparties at that time. By indicating the sum of the actual funds at risk for all reported swap transactions suitable for publication, the total net notional amounts outstanding displayed in the Swaps Report present another measure of the total size of the swaps market.

Notional amounts outstanding are expressed in millions of U.S. dollars. The notional values of swaps denominated in other currencies are converted to U.S. dollars using the conversion methodology defined in the Commission’s Block Trade rule.⁷

Transaction Ticket Volume

⁴ The data voluntarily submitted to populate the proposed version of the CFTC Swaps Report did not include swaps in this category.

⁵ For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, the notional values of swaps denominated in other currencies are converted to U.S. dollars by the submitting entity, where applicable.

⁶ For credit products, the net notional outstanding amounts displayed in the CFTC Swaps Report are calculated by DTCC prior to voluntarily submitting the data to the Commission. For other commodity products, the net notional outstanding amounts are calculated by the Commission, and reflect the sum of the net notional outstanding amounts of each clearing firm in each commodity and contract maturity at the end of the trading day on Friday. The data voluntarily submitted for the purpose of populating the CFTC Swaps Report tables currently lacks the granularity to calculate net notional amounts outstanding for interest rate swaps; consequently, the proposed version of the CFTC Swaps Report does not display net notional outstanding data in this asset class. Upon the effective implementation of the Part 45 final rule, the Commission will have the ability to calculate and publish net notional outstanding data, segregated further by participant type; the data reported pursuant to Part 45 will include a LEI or substitute identifier for counterparties, which will enable the calculation of net notional amounts outstanding and classification according to the Commission’s entity definitions.

⁷ For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, the notional values of swaps denominated in other currencies are converted to U.S. dollars by the submitting entity, where applicable.

The number of active swap transactions⁸ that are reported to a registered SDR during the week preceding 3 a.m. on the Saturday prior to the CFTC Swaps Report's Wednesday publication date (beginning 3 a.m. on the previous Saturday).⁹ These individual transactions are identified by the Commission using the Unique Swap Identifiers (USIs) required by Part 45 for all swap transactions reported to a registered SDR.¹⁰ The total volumes of reported swap transactions suitable for publication displayed in the Swaps Report present another measure of the total size of the swaps market.

Transaction Dollar Volume¹¹

The total of the combined notional values, in USD, of all active swap transactions that are reported to a registered SDR during the week preceding 3 a.m. on the Saturday prior to the CFTC Swaps Report's Wednesday publication date (beginning 3 a.m. on the previous Saturday). Whereas the gross notional outstanding represents a weekly snapshot of the total notional value of swaps in SDRs, transaction dollar volumes represent the total notional values of all swaps that were transacted during the week-long period. The total dollar volumes of reported swap transactions suitable for publication displayed in the Swaps Report present yet another measure of the total size of the swaps market.

Cleared/Uncleared

For the purposes of the CFTC Swaps Report only, a cleared swap is a swap that is submitted by the counterparties to a clearing organization, which guarantees both sides of the transaction by serving as a central counterparty—essentially splitting the transaction into two sides and serving as the counterparty for each of two new transactions. Clearing is designed to provide each counterparty with a greater degree of certainty that their counterparty, which is now the clearing organization, will not default on payment obligations. Clearing organizations also perform a number of other functions that serve to reduce counterparty risk, including requiring margin,

⁸ For the proposed version of the CFTC Swaps Report, the transaction volumes for interest rate products (aggregated from the data voluntarily submitted by LCH.Clearnet) include both house and client trades. Transaction volume data for interest rate products is currently available only for cleared swaps. The transaction volumes for credit products (aggregated from the data voluntarily submitted by DTCC) include both price-forming transactions (new trades which result in a change in the risk position of the counterparties) and non-price-forming transactions (including, but not limited to, central counterparty clearing and portfolio compression exercises). This Commission will have the ability to publish data for only price-forming trades upon the effective implementation of the Part 45 final rule.

⁹ For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, this timeframe will vary. For interest rate swaps, the weekly cutoff occurs at 12 a.m. EST on Saturday. For other commodity swaps, the weekly cutoff occurs at the time of settlement on Friday (typically 5 p.m. EST). For credit default swaps, the weekly cutoff occurs at 3 a.m. EST on Saturday.

¹⁰ For the proposed version of the CFTC Swaps Report, these transactions are aggregated differently. For credit products and interest rate products, the volume calculations are performed by the entity voluntarily submitting the data. For commodity products, the Commission performs the volume calculations.

¹¹ The voluntarily-submitted data that are used in the proposed version of the CFTC Swaps Report are not sufficiently granular to allow the proposed version of the CFTC Swaps Report to display transaction dollar volume totals; however, upon the effective implementation of the Part 45 final rule, the data reported pursuant to the requirements of that rule will be sufficiently granular to allow for the production of transaction dollar volume tables in the final version of the CFTC Swaps Report.

assessing counterparty credit quality, and generating independent trade valuations. An uncleared swap is a bilaterally-executed swap that is not cleared and settled through a clearing organization. Under the Dodd-Frank Act's clearing mandate, all market participants will be required to clear swap transactions, with the exception of certain end-users and small financial institutions.

Participant Types

The CFTC Swaps Report addresses three important groups of participants: Swap dealers and major swap participants ("SD/MSPs"), other financial entities ("financials"), and end-users. These reports will use definitions of "swap dealer" and "major swap participant" set forth in the Commission's "Further Definition of "Swap Dealer," "Security-Based Swap Dealer," "Major Swap Participant," "Major Security-Based Swap Participant" and "Eligible Contract Participant" rule, in conjunction with the LEIs required by Part 45, to segregate the data received from SDRs based on participant type.¹²

Long/Short

For the purposes of this report, a swap position is considered "long" if the counterparty receives payments with an increase in the price of the underlying reference asset. Conversely, a swap position is considered "short" if the counterparty receives a payment with a decrease in the price of the underlying reference asset. To avoid confusion, this report excludes from the categories of "long" and "short" certain types of swaps for which a counterparty receives payments from a change in the price of the underlying reference asset based on a factor such as the variance or the magnitude of the change and not the direction of the change (one example of such a product is variance swaps). The All Swaps reports that display swap data as "long" and "short" count the notional value of each swap twice—once for the counterparty taking the "long" position and once for the counterparty taking the "short" position. (These counterparties are classified using the Legal Entity Identifiers (LEIs) required by Part 45.)¹³

Preserving Anonymity

In some cases, in the interest of preserving the anonymity and proprietary strategies of market participants, the CFTC Swaps Report does not include specific aggregated information pertaining to less-liquid markets or highly unique bespoke products. In these instances, the information will be "masked", or expressed as a coarse range between zero and an appropriate power of 10 that is larger than the observation (for example, "<1,000" or "<10,000"). Affected

¹² For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, these counterparties are classified differently. For credit default swaps, counterparties are classified according to DTCC's classification of swap dealers and buy-side firms. For equity swaps, counterparties are classified according to DTCC's classification of brokers and non-brokers.

¹³ For the proposed version of the CFTC Swaps Report, published using voluntarily submitted data, these counterparties are classified differently. For credit products, the determination of "long" and "short" counterparties is made by aggregating the directional positions visible in the submitted data, with counterparties classified according to DTCC's classification of swap dealers and buy-side firms. The Commission will have the ability to publish data segregated by participant types upon the effective implementation of the Part 45 final rule; the data reported pursuant to Part 45 will include a LEI or substitute identifier for counterparties, which will enable classification according to the Commission's entity definitions.

"total" columns, as well as corresponding observations in other CFTC Swaps Report tables, may also be masked as necessary in these instances. Tables may also contain observations below the threshold established by a coarse range such as "<10,000" elsewhere in the CFTC Swaps Report tables if the relevant market or product is sufficiently liquid or standard to display the information without significant risk of accidental disclosure.¹⁴ The Commission's disclosure risk review process for the CFTC Swaps Report will reflect the data submitted (initially, the data submitted on a voluntary basis by SDR applicants and non-SDR applicants; ultimately, the data reported pursuant to the requirements of 17 CFR Part 45), and are thus likely to change as the data submitted become more granular and more voluminous; however, the Commission has generally sought to limit the unintended disclosure of the identities, business transactions, or market positions of swap counterparties.

¹⁴ To determine which observations are shown and which are masked, the historical distribution of observations on each Swaps by Asset Class table are analyzed, and observations are masked if they fall outside a certain percentile. For the purposes of preserving anonymity, the percentiles used for this test, as well as the parameters that will be used to mask observations from the data reported pursuant to 17 CFR Part 45, are not disclosed here.